

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CASSOPOLIS AREA UTILITIES AUTHORITY	County Cass
Audit Date 12/31/05	Opinion Date 4/28/06	Date Accountant Report Submitted to State: 5/9/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) SCHAFFER & LAYHER, PLLC			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature <i>Michael W. Layher</i>		Date 5/9/06	

CASSOPOLIS AREA UTILITIES AUTHORITY

FINANCIAL REPORT

December 31, 2005

AUTHORITY BOARD MEMBERS

<u>Office</u>	<u>Official</u>	<u>Representing</u>
Chairperson	Ronald Francis	Penn Township
Vice Chairperson	Gene Decker	LaGrange Township
Board Member	Larry Balok	Penn Township
Board Member	Mike Seedorf	Calvin Township
Board Member	Betty Argersinger	Jefferson Township
Board Member	Ronald Bass	Village of Cassopolis
Board Member	Michelle Andrews	Village of Cassopolis

Board Secretary/Treasurer
Cheri Martine

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Cassopolis Area Utilities Authority

We have audited the accompanying basic financial statements of Cassopolis Area Utilities Authority as of December 31, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Cassopolis Area Utilities Authority's management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements of Cassopolis Area Utilities Authority as of December 31, 2004 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated July 28, 2005.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Cassopolis Area Utilities Authority as of December 31, 2005 and the changes in financial position, including cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Cassopolis Area Utilities Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

A handwritten signature in black ink that reads 'Schaffer & Layher' in a cursive script.

Schaffer & Layher
April 28, 2006

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

The following management's discussion and analysis (MD&A) of the Cassopolis Area Utilities Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenues, expenses, and changes in net assets, the statement of cash flows, and other information contained in this report.

About the Authority

Cassopolis Area Utilities Authority (CAUA or the "Authority"), through an intergovernmental agreement between the Village of Cassopolis and four townships located in Cass County: Calvin, Jefferson, LaGrange, and Penn townships, operates the sewage transportation system for these communities.

Financial Highlights

- The Authority's net assets at December 31, 2005 were \$4,681,964, of which \$3,905,004 was invested in capital assets. At December 31, 2004, net assets were \$4,932,532.
- Operating revenues increased by 18.8 percent from \$358,228 in 2004 to \$425,436 in 2005, due to increased user fees and tap fees.
- Operating expenses increased by 31.9 percent from \$564,404 in 2004 to \$744,273 in 2005, due to approximately \$128,000 owed to the Village of Cassopolis for prior years purchased services.

Overview of the Financial Statements

This report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total net assets decreased by \$250,568 from 2004 to 2005 with net assets of \$4,681,964 at December 31, 2005 and \$4,932,532 at December 31, 2004.

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 834,961	\$ 869,305
Capital Assets	3,905,004	4,063,227
Other Assets	1,375,000	1,645,000
Total Assets	<u>\$ 6,114,965</u>	<u>\$ 6,577,532</u>
Total Liabilities	<u>\$ 1,433,001</u>	<u>\$ 1,645,000</u>
Net Assets		
Invested in capital assets	\$ 3,905,004	\$ 4,063,227
Unrestricted	776,960	869,305
Total Net Assets	<u><u>\$ 4,681,964</u></u>	<u><u>\$ 4,932,532</u></u>

Financial Analysis of the Authority as a Whole, Concluded

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$(250,568) and \$(352,143) for the years ended December 31, 2005 and 2004, respectively.

	<u>2005</u>	<u>2004</u>
Operating Revenues	\$ 425,436	\$ 358,228
Operating Expenses (including depreciation)	<u>744,273</u>	<u>564,404</u>
Operating Loss	\$ (318,837)	\$ (206,176)
Non-operating revenues (expenses)	<u>\$ 68,269</u>	<u>\$ (145,967)</u>
Change in net assets	<u><u>\$ (250,568)</u></u>	<u><u>\$ (352,143)</u></u>

Analysis of Financial Position

The current year net assets decreased \$250,568. Several significant factors affecting net assets during the year are discussed below:

- 1) Operating expenses exceeded operating revenues by \$318,837, with an additional net \$68,269 of non-operating revenue received.
- 2) The Authority's investment in capital assets had a decrease of \$158,223 due to no current year acquisitions and only \$158,223 of current year depreciation.

Results of Operations

The Authority had a decrease in operating income of \$250,568 from last year as a result of the following:

- 1) Operating revenues increased \$67,208 or 18.8% as a result of increased flows from increased usage.
- 2) Operating expenses increased \$179,869 or 31.9% as the Authority continues to do repairs and upkeep on the system. Management recognizes that control over year to year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Nonoperating interest income has significantly contributed to the Authority's overall revenue base. This is due to the large amount of dollars available and invested from prior years. As operating costs continue to rise, these resources will be depleted and could negatively impact future non-operating interest income.

Results of Operations, Concluded

- 4) One of the largest expenses the Authority incurs is the purchased services from the Village of Cassopolis for operations and maintenance of the system. The Authority pays a monthly amount based on the collections from each municipality throughout the year, and then reconciliation is performed at the Village level to determine if enough revenue has been received to cover their expenses. At December 31, 2005, this amount was approximately an additional \$128,000 of expense to the Authority.

Budgetary Highlights

During the year, the Authority had no budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements is a significant element in the Authority's financial plan. Ongoing funding for capital improvements will be generated from operating revenues. The monies accumulated are being earmarked for capital projects.

Economic Factors and Next Year's Forecast

The funding composition for the operation and maintenance for the Authority consists of rates established by the governmental units and ultimately paid by the customers using the sewer system. The Authority then keeps a portion of the rates and remits the remainder to the Village of Cassopolis for purchased services and other governmental entities for debt repayments.

The Authority's plan for budget monitoring includes reviewing the actual expenses of the Village for operations on a monthly basis, to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. The Authority has proposed rate increases effective July 1, 2006 subject to approval by each contracting municipality.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 117 South Broadway, Suite 100, Cassopolis, MI 49031.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,300	\$ 93,144
Accounts receivable	36,742	-
Investments	770,019	762,561
Prepaid rent	11,900	13,600
Total Current Assets	\$ 834,961	\$ 869,305
Capital Assets	\$ 3,905,004	\$ 4,063,227
Restricted Assets		
Contract receivable	\$ 1,375,000	\$ 1,645,000
Total Assets	\$ 6,114,965	\$ 6,577,532
Liabilities		
Accounts payable	\$ 58,001	\$ -
Contract payable	1,375,000	1,645,000
Total Liabilities	\$ 1,433,001	\$ 1,645,000
Commitments and contingencies		
Net Assets		
Invested in capital assets	\$ 3,905,004	\$ 4,063,227
Unrestricted	776,960	869,305
Total Net Assets	\$ 4,681,964	\$ 4,932,532
Total Liabilities and Net Assets	\$ 6,114,965	\$ 6,577,532

The notes to financial statements are an integral part of this statement.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31, 2005 AND 2004**

	2005	2004
Operating Revenues		
User fees	\$ 381,037	\$ 341,513
Permits and tap-in charges	41,340	16,715
Other income	3,059	-
Total Operating Revenues	\$ 425,436	\$ 358,228
Operating Expenses		
Board per diems	\$ 4,885	\$ 3,745
Office supplies	1,006	1,134
Maintenance	82,789	34,826
Attorney fees	3,225	3,511
Audit fees	3,705	3,142
Insurance	6,601	6,449
Rent	1,700	1,700
Purchased services (operation and maintenance)	480,416	334,672
Depreciation expense	158,223	156,937
Other	1,723	18,288
Total Operating Expenses	\$ 744,273	\$ 564,404
 Operating Income (Loss)	 \$ (318,837)	 \$ (206,176)
Non-Operating Revenues (Expenses)		
Investment income	\$ 70,072	\$ 38,914
Board approved debt reduction on behalf of municipalities	(1,803)	(184,881)
Total Non-Operating Revenues (Expenses)	\$ 68,269	\$ (145,967)
 Change in net assets, as restated for 2004	 \$ (250,568)	 \$ (352,143)
Net assets, beginning of year	4,932,532	5,284,675
Net assets, end of year	\$ 4,681,964	\$ 4,932,532

The notes to financial statements are an integral part of this statement.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF CASH FLOWS
DECEMBER 31, 2005 AND 2004**

	2005	2004
Cash flows from operating activities		
Cash received from customers	\$ 388,694	\$ 358,228
Cash payments to suppliers for goods and services	(526,349)	(405,767)
Net cash (used in) operating activities	<u>\$ (137,655)</u>	<u>\$ (47,539)</u>
Cash flows from capital and related financing activities		
Payments for acquisition or construction of capital assets	\$ -	\$ (72,924)
Payments made on behalf of municipalities for debt	(1,803)	(184,881)
Net cash (used in) capital and related financing activities	<u>\$ (1,803)</u>	<u>\$ (257,805)</u>
Cash flows from investing activities		
Proceeds from sale of investments	\$ 98,938	\$ 185,028
Purchase of investments	(106,396)	-
Investment income	70,072	38,914
Net cash provided by investing activities	<u>\$ 62,614</u>	<u>\$ 223,942</u>
Net (decrease) in cash and cash equivalents	\$ (76,844)	\$ (81,402)
Cash and cash equivalents, beginning of year	93,144	174,546
Cash and cash equivalents, end of year	<u><u>\$ 16,300</u></u>	<u><u>\$ 93,144</u></u>
Reconciliation of operating income to Net Cash from operating activities		
Operating income (loss)	\$ (318,837)	\$ (206,176)
Depreciation	158,223	156,937
Adjustments to reconcile operating income to net cash from operating activities--Changes in assets and liabilities:		
Increase in accounts receivable	(36,742)	-
Increase in accounts payable	58,001	-
Decrease in prepaid rent	1,700	1,700
Net cash provided by (used in) operating activities	<u><u>\$ (137,655)</u></u>	<u><u>\$ (47,539)</u></u>

There were no noncash transactions during the years ended December 31, 2005 or 2004.

The notes to financial statements are an integral part of this statement.

NOTE 1. NATURE OF ENTITY

The Cassopolis Area Utilities Authority (the “Authority”) was formed through an intergovernmental agreement with the Village of Cassopolis, and the Townships in Cass County Michigan of Calvin, Jefferson, LaGrange, and Penn as was created pursuant to Act 233, Michigan Public Acts of 1955. It is allowed to acquire, construct, purchase, finance, own, improve, enlarge, operate, maintain, administer, and manage a sewage disposal system, a solid waste management system, and/or water supply system. The Authority currently operates a sewage transportation system for these municipalities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

The Authority’s financial statements include the accounts of all the Authority’s operations. The criteria for including organizations as component units within the Authority’s reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board’s (“GASB”) *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization’s board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies.

Basis of Accounting

In accordance with Governmental Accounting Standards Board (“GASB”) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless pronouncement conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority applies only applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon all eligibility requirements imposed by the provider have been met.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**Fund Accounting**

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing, including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all investments purchased with an original maturity of three (3) months or less to be cash equivalents.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

Investments

Investments are stated at fair value, based on quoted market prices, and consist principally of governmental securities. Investment income is composed of interest and net change in the fair value of applicable investments.

Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	7 – 10 Years
System Improvements	15 – 40 Years
Office equipment	5 – 10 Years

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets). Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**Operating Revenues and Expenses**

Operating revenues and expenses are those that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, permits, and tap-in fees. All other revenues and expenses are reported as nonoperating.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Information**

An annual budget was not adopted, which business-type activities are not required by generally accepted accounting principles in the United States of America.

NOTE 4. DEPOSITS AND INVESTMENTS

During the year ended December 31, 2005, the Authority adopted GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rate within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

NOTE 4. DEPOSITS AND INVESTMENTS, CONCLUDED

The Authority has designated one bank for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the Authority had \$0 of bank deposits (checking) that were uninsured and uncollateralized. The Authority believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as result of rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. At year-end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Market Value</u>	<u>Weighted Average Maturity</u>
Federal Home Loan Mortgage Corporation Discount Notes	\$ 200,062	1/15/2006
U.S. Treasury Note	69,451	11/15/2006
U.S. Treasury Note	102,238	2/15/2008
U.S. Treasury Note	171,634	11/15/2008
Federal Home Loan Bank Bonds	152,344	1/12/2009

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year-end, the credit quality rating of debt securities (other than the U.S. Government) and other investments is as follows:

<u>Investment</u>	<u>Fair Market Value</u>	<u>Rating</u>	<u>Organization Rating Maturity</u>
Fifth Third-Bank Investment Pool	\$ 74,290	AAA	Standard & Poor's
Federal Home Loan Mortgage Corp Discount Notes	200,062	AAA	Standard & Poor's
U.S. Treasury Note	69,451	AAA	Standard & Poor's
U.S. Treasury Note	102,238	AAA	Standard & Poor's
U.S. Treasury Note	171,634	AAA	Standard & Poor's
Federal Home Loan Bank Bonds	152,344	AAA	Standard & Poor's
	<u>\$ 770,019</u>		

NOTE 5. RESTRICTED ASSETS

The Authority's four owner townships (Penn, LaGrange, Jefferson, and Calvin), in 1990 formed a special assessment district to provide the wastewater sewer system for Diamond Lake. In order to pay for the construction costs, Cass County issued limited tax general obligation bonds, both Series A (\$5,500,000) and B (\$250,000), and are payable solely from certain contractual payments from the contracting municipalities to the County. The contracting municipalities have pledged their limited tax, full faith, and credit for the payment of their respective portion.

The Authority has no obligation for repayment of these outstanding bonds, but has recognized the amount payable each year as both a restricted contract receivable and payable, and has approved to make money available for debt reduction on behalf of the contracting municipalities if they can not meet their respective obligations. The Authority has made debt payments of \$1,803 and \$184,881 (includes retirement of Series B bonds) for 2005 and 2004, respectively.

The amount of bonds outstanding is as follows, which is the amount of the Authority's contract receivable and payable:

<u>Years Ended</u>	<u>Series A Bonds Principal</u>
2006	\$ 275,000
2007	275,000
2008	275,000
2009	275,000
2010	275,000
	<u>\$ 1,375,000</u>

NOTE 6. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005 was as follows:

	<u>1/1/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2005</u>
Capital assets being depreciated:				
Sewer system and improvements	\$ 5,973,386	\$ -	\$ -	\$ 5,973,386
Office equipment	14,775	-	-	14,775
Other equipment	55,120	-	-	55,120
Subtotal	\$ 6,043,281	<u>\$ -</u>	<u>\$ -</u>	\$ 6,043,281
Less: Accumulated depreciation	(1,980,054)	<u>\$ 158,223</u>	<u>\$ -</u>	(2,138,277)
Net total capital assets	<u>\$ 4,063,227</u>			<u>\$ 3,905,004</u>

NOTE 7. OPERATING LEASE

The Authority leases building space from the Village of Cassopolis under a twenty year agreement which began February 17, 1992 and expires February 17, 2012. The Authority paid the total amount of the lease at the time of signing in the amount of \$34,000 and the prepaid rent is being expensed at \$1,700/year. The Authority is also responsible for a one-third shared cost of utilities at the building.

NOTE 8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2004 have been restated to correct an error for board approved debt payment expenditures made in 2004. The effect of the restatement was to increase non-operating expenses by \$182,881 and the change in net assets to (\$352,143) for 2004.

NOTE 10. CONTINGENCY

The Authority is required to reimburse the Village of Cassopolis (the "Village") for the cost of their operation and maintenance of the sewer transportation system. The Village operates on a fiscal year ending in February. At this time, the Village has not completed its 2005 or 2006 audits, and any reconciling amounts owed to the Village by the Authority (or due to the Authority from the Village) cannot be reasonably determined or estimated at this time.



May 4, 2006

To Management and Board Members of
Cassopolis Area Utility Authority

In planning and performing our audit of the financial statements of Cassopolis Area Utility Authority (the "Authority") for the year ended December 31, 2005, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated April 28, 2006, on the financial statements of Cassopolis Area Utility Authority.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads "Schaffer & Layher". The script is cursive and fluid, with the ampersand clearly visible.

Schaffer & Layher

Attachment

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

Establish Fixed Assets Capitalization Policy:

We noted during our audit that the Authority has large repair and maintenance expenditures, but has no established capitalization policy. We recommend the board adopt a policy that establishes the type of assets to capitalize, a dollar criterion of expenditures to look at, and other items to help determine which are repairs and improvements. We have attached a sample fixed asset capitalization policy.

Establish Investment Policy:

During our audit of investments, we noted the Authority has not established an investment policy in accordance with Michigan statutes. We recommend an investment policy be established with the proper guidelines and have attached the authoritative legislation to follow.